WARRINGTON
ASSET MANAGEMENT

September 2013 Market Commentary

The old adage, "Markets climb a wall of worry" was definitely true in September. With the potential for the Fed to taper asset purchases, a German Federal election with possibly Euro-area-altering results, and historical seasonality for September to be the worst month for stock markets, there was no shortage of issues over which to be concerned. But the stock market shrugged off almost all of those, relentlessly climbing 5.9% from the beginning of the month through the Fed meeting, where no "taper" was announced. While this surprise from the Fed could have sparked a further "risk-on" rally, it instead marked the high for the month, and markets slowly declined for the next few days, when new worries about a looming government shutdown began to spook the markets.

With the market drifting higher into the regular options expiration, the ratio put spreads held in the fund were not profitable, and the fund lost the debit cost of those spreads. The manager elected to have lighter positions on after the regular expiration as the potential risks outweighed the reward opportunities presented by the market.

Once volatility expanded and the risk / reward opportunities for ratio put spreads became more advantageous, the manager initiated some October ratio put spreads. With no clear resolution in sight for the government shutdown and debt ceiling issues, the manager is positioning the fund to attempt to capitalize on a decline in the S&P 500.